



Title: **Revenue Outturn 2010/11 – Subject to Audit**

Public Agenda Item: **Yes**

Wards Affected: **All Wards in Torbay**

To: **Overview and Scrutiny Council** On: **23 June 2011**
On: **13 July 2011**

Key Decision: **No**

Change to Budget: **Yes** Change to Policy Framework: **No**

Contact Officer: **Paul Looby**

☎ Telephone: **207283**

✉ E.mail: **paul.looby@torbay.gov.uk**

1. What we are trying to achieve and the impact on our customers

- 1.1. Monitoring of the Council's finances is an essential requirement and forms an integral part of the Council's ongoing performance monitoring. During the financial year 2010/11, Members received quarterly revenue and capital budget monitoring reports. These reports identified the key spending pressures faced by Business Units and any action taken by managers to ensure the Council spent within its approved budget for the financial year.
- 1.2 The purpose of this report is to inform Members of the final revenue outturn position for the Council for the financial year 2010/11 and to make appropriate recommendations with respect to the declared surplus. A separate report will be presented to Members of the final capital outturn position.

2. Recommendations for decision

- 2.1 **That the revenue outturn position for 2010/11 be noted.**
- 2.2 **That the Overview and Scrutiny Board be asked to report directly to Council on any recommendation it may have following its review of the outturn position.**

2.3 That it be recommended to the Council that:

- (i) the transfer of £0.500m to the Comprehensive Spending Review reserve be approved (paragraph A5.1);**
- (ii) the transfer of £0.576m to the budget pressures reserve be approved (paragraph A5.1);**
- (iii) the transfer of £0.275m of the revenue underspend to the General Fund Balance (paragraph A5.5) be approved;**
- (iv) a sum of £0.300m is earmarked to be transferred to the Change Management and Financial Strategy Reserve subject to the final audit of the Council's Housing Benefit Subsidy be approved (paragraph A3.7);**

3. Key Points and reasons for recommendation

- 3.1 The Council is faced with an extremely challenging future due to the reduction in government grant over the period of the current Comprehensive Spending Review (CSR). In addition, 2010/11 was a challenging year financially for the Council due to the in-year reduction to the Council's grant of £0.986m. However, despite this significant reduction, once again the Council has been able to contain spending within the overall budget and is in the position whereby income received has exceeded expenditure in 2010/11.
- 3.2 Despite the ongoing budget pressures faced by some services and as a result of careful monitoring of budgets and performance by the Cabinet, Overview and Scrutiny Board and Commissioner Officer Group, the Council has been able to stay within their overall budget allocation – for this managers must be commended. This has been achieved through careful management of the in-year reduction to the Council's grant and implementing a vacancy freeze for all non-front line officers and robust review and challenge of all Council expenditure.
- 3.3 This continues the trend of the Council not having to make a call on general fund balances since the Council became a unitary authority in 1998. The Council must be mindful of the challenges that will have to be faced in the next few years and therefore it is recommended that due to this positive financial position at year end a contribution of £0.275m is made to the general fund balance.
- 3.4 The Council approved the creation of a Comprehensive Spending Review (CSR) reserve in 2010 as recommended with the Review of Reserves report – 277/10 refers. The approval of a transfer of £0.500 m from the surplus achieved in 2010/11 will replenish the reserve after using £1.4m to fund redundancy costs arising from the 2011/12 budget. This will assist the Council in managing the impact of the cuts, as set out in the Comprehensive Spending Review in 2010, including financing any costs in relation to reducing services and staff numbers.
- 3.5 Due to the challenging financial position faced by the Council it is considered prudent to maintain a Budget Pressures Reserve in 2011/12, funded from the pay provision which was not required in 2010/11 and the balance of the surplus achieved in 2010/11. This is a prudent approach to ensure resources are available to fund budget pressures that may arise during the year and enable the

Council to continue to manage the challenging financial outlook faced over the next three years.

- 3.6 Members will be reassured that all Business Units will be expected to explore all options to manage any budget pressures during the year before consideration is given to releasing resources from this earmarked contingency.
- 3.7 The earmarking of £0.300m to the Change Management and Financial Strategy Reserve from the expected additional housing benefit subsidy (subject to the final external audit) will enable the Council to continue to support the ongoing change agenda and consider any new demands and service pressures that arise in the future.
- 3.8 The approval of the transfer to the General Fund balance will increase the balance to £4.0m and, in my opinion, will provide the Council with sufficient resources to fund any unforeseen events that could occur in the future. This level of general fund balance represents 3.2% of the Council's net expenditure, and means the Council will have met its target level of general fund reserves set a number of years ago (report 277/10 refers).
- 3.9 The Council has a statutory obligation to report on its financial position in each year which culminates in the production of the Council's statutory annual accounts. The accounts must be finalised and signed by the Chief Finance Officer before the end of June each year.
- 3.10 The revised Accounts and Audit Regulations mean the statutory accounts will be presented to Members of the Audit Committee for scrutiny and Council for formal approval in September 2011. Previously the requirement was that the accounts had to be presented to Members in June, however the new regulations will mean Members will be considering and approving the accounts after the statutory audit has been completed and reported to Members in September 2011.
- 3.11 For Members information, the external audit of the accounts will commence on 11 July 2011 and is expected to take approximately 2 months.

For more detailed information on this proposal please refer to the supporting information.

**Paul Looby
Executive Head of Finance**

Appendices

Appendix 1 Write-Off's over £5,000 (Exempt Appendix).

Supporting information to

A1. Introduction and history

- A1.1 The Council approved the 2010/11 budget at its meeting on 10 February 2010. A revised budget was presented and approved by Council in September 2010, due to the in-year cut by the Government to Torbay's grant.
- A1.2 The Council has continued to present financial reports to both the Cabinet and the Overview and Scrutiny Board during 2010/11 which is recommended as best practice. These reports summarised and identified the key spending pressures faced by Business Units within the Council and where appropriate, the action officers took to ensure the Council spent within the agreed budget set for the year. This process ensured that there was effective public monitoring and scrutiny of the revenue budget throughout the financial year.
- A1.3 Performance and financial monitoring is provided to Members through the SPAR system and quarterly updates are available. Performance management includes integrated reporting to Cabinet and Overview and Scrutiny Board. During 2010/11, the reporting process provided integration of performance with benchmarked and value for money comparators as well as an overview of resources.
- A1.4 This report is comparing the revised budget position for 2010/11 to the revenue outturn position as at the end of the financial year.
- A1.5 The outturn position indicated in this report is the final position subject to the Council's external auditors – the Audit Commission - completing their annual audit of the accounts. The approval of the Council's statutory accounts, which will be approved by Council in September 2011, after the Audit Commission have completed and reported on their audit of the accounts.
- A1.6 As part of the audit review by the Audit Commission, there is the possibility that changes may be made to the overall outturn position for the Council. However, should any variations to the figures be necessary these are not expected to be materially significant. For Members information, the external audit of the accounts will commence on 11 July 2011 and is expected to take approximately 2 months.
- A1.7 As in previous years, to ensure the deadline for closing the accounts is met, assumptions have had to be made when closing the accounts which are subject to review by the Audit Commission.

A2. Carry Forwards

- A2.1 The Council's Financial Regulations states that, subject to the approval of Council when considering the end of the financial year position, any overall net underspend within a directly controllable revenue budget may be carried forward into the following financial year.

- A2.2 Under the terms of the Constitution, Commissioners, and Executive Members have discuss any proposed carry forwards and agreed those that should be recommended for approval. Due to the difficult financial position faced by the Council it was decided that all underspending budgets that are not committed will be transferred to reserves to assist to the Council in managing the difficult financial position it is facing.
- A2.3 The Council has £0.578m of carry forwards which are already committed and do not require Member.

Schools Service

- A2.4 A balanced budget position has been declared for Schools Block Activities after making a contribution to reserves of £0.267m. This position will be reported to the Schools Forum.
- A2.5 Schools will be carrying forward balances of £2.5m from 2010/11 to 2011/12 which represents 4% of the total delegated schools budget – these resources are earmarked for schools related expenditure. This is an increase of £0.7m against the previous year. There will also be a carry forward of £0.3m in respect of Standards Fund monies which is a mandatory requirement as it can be spent by schools over a 17 month period.
- A2.6. Members are advised that during 2010/11, 3 schools converted to Academy status and their figures have been excluded from the above balances and Standards Fund Monies.

A3. Net Committee Expenditure

- A3.1 After taking into account the committed carry forward total of £0.578m net expenditure for 2010/11 is £131.630m. This gives an overall Council surplus of £1.351m against the revised budget of £132.981m. The main variations are summarised in table 2.

Table 2

Net Revenue Expenditure 2010/11

Council Services	Revised Budget A	Actual Spend B	Carry Forward to 2011/2012 C	Outturn (D) B+C	Net /(Under) spend D-A	Over spend
	£'000	£'000	£'000	£'000	£'000	£'000
Environment						
Residents and Visitors	10,927	10,608	171	10,779		(148)
Waste	8,829	8,834	38	8,872		43
Spatial Planning	4,931	4,327	14	4,341		(590)
Torbay Development Agency	5,042	4,633	290	4,923		(119)
Community Safety	1,778	1,560	30	1,590		(188)
Marine	0	0	0	0		0
	31,507	29,962	543	30,505		(1,002)
People						
Adult Social Care	42,103	42,028	0	42,028		(75)
Children's	23,071	23,264	0	23,264		193
	65,174	65,292	0	65,292		118
Corporate Support						
Governance	9,002	8,742	0	8,742		(260)
Business Planning	3,109	3,085	0	3,085		(24)
Communities - Housing Services	8,311	8,281	35	8,316		5
	20,422	20,108	35	20,143		(279)
Operational Support						
Customer Contact	1,836	1,660	0	1,660		(176)
Finance	9,136	9,112	0	9,112		(24)
Human Resources	839	834	0	834		(5)
Information Technology	2,936	2,908	0	2,908		(28)
Legal and Procurement	1,131	1,176	0	1,176		45
	15,878	15,690	0	15,690		(188)
Total	132,981	131,052	578	131,630		(1,351)

A3.2 Members have been informed throughout the year as to the reasons for the main variations within Business Unit budgets as part of the monitoring reports presented to the Cabinet and Overview and Scrutiny Board. A brief summary of the main variances and the principal reasons for any underspends or overspends within each directorate are explained below.

Environment

A3.3 Overall services within the Environment portfolio declared an underspend of £1.002m after the application of carry forwards.

The main variations were:

- Residents and Visitors reported an underspend of £0.148m after the application of carry forwards of £0.171m. The receipt of additional car parking income and vacancy savings within the Car Parks Service was partly offset by costs for the implementation of the new Tourism company, increased costs for winter maintenance and a revenue contribution to fund additional costs for Rock Walk.
- The creation of the Joint Venture Company, TOR2, was approved by Council on 25 March 2010 - Report 71/2010. The report to Council said there would be short term additional costs in the first few years of the contract - primarily as a result of the early implementation of the new waste strategy. These costs have been funded from reserves and the relevant reserve replenished over the course of the contract or earlier if resources are available. As at the end of 2010/11 the contribution from reserves is £1.3m.
- Waste and Cleaning declared an overspend of £0.043m primarily due to setting aside a carry forward request for the remediation works at Claylands over the next two years as required by the Environment Agency.
- Spatial Planning declared an underspend of £0.590m due to the receipt of additional Concessionary Fares Grant which was announced at the end of the 2009/10. During the year Members agreed to hold an uncommitted balance as a contingency to support the Council's overall financial position.
- The TDA declared an underspend of £0.119m after the application of carry forwards totalling £0.290m due primarily to the timing of projects.
- Community Safety declared an underspend of £0.188m primarily through managing vacancies, general administrative cost savings and improved licensing income.

People

A3.4 Overall services within the People portfolio declared an overspend of £0.118m after the application of carry forwards. The main variations were:

- Adult Social Care declared a small underspend of £0.075m as reported throughout the year.
- Children's Services declared an overspend of £0.193m. The overspend is primarily within Specialist Services. This is one of the Council's most volatile budgets and covers placements for vulnerable children and has

overspend due to placement numbers. This overspend has been partly offset due to savings within Early Intervention and vacancy management savings across Learning and Standards.

Corporate Support

A3.5 Corporate Support declared an underspend of £0.279m after the application of carry forwards.

- Housing Services declared a small overspend after the application of a carry forward of £0.035m.
- Business Planning declared a small underspend of £0.024m.
- Governance declared an underspend of £0.260m. As reported during the year, 3 services delivered savings above the 5% target set in the 2010/11 budget and for reporting purposes this corporate saving has been accounted for within the Governance Business Unit.

Operational Support

A3.6 Services within the Operational Support portfolio declared an underspend of £0.188m, of which the significant variations are:

- Customer Contact declared an underspend of £0.176m due to better than anticipated benefit subsidy during the year.
- Finance declared an underspend of £0.024m due to vacancy management
- IT declared an underspend of £0.028m due to a reduced costs for IT licences.
- Legal and Procurement declared an overspend of £0.045m primarily due to legal fees incurred on behalf of other department's.

A3.7 The latest information indicates that the Housing Benefit service has met its targets for reducing errors in processing claims. This means the service will receive additional subsidy of £0.3m which will confirmed later in the year once the Audit Commission have completed their annual audit. It is recommended this sum is earmarked as a transfer to the Change Management and Financial Strategy Reserve.

A4. Debtors Outturn

A4.1 The key issues with respect to debtors monitoring are:

Council Tax

A4.2 The 2010/11 targets for collection of Council Tax were:

- (i) collect 96.5% of the Council Tax due within the 12 months of the financial

year (i.e. April to March); and

- (ii) collect 50% of the arrears brought forward from previous years.

At the end of the fourth quarter 2010/11 the Council collected £59.2m which is 96.3% of the Council Tax due in year. This is an improvement on the outturn position at the end of last year.

A4.3 The collection of arrears proved difficult due to the weakness of the local economy. The arrears outstanding at the end of the financial year were £3.3m.

A4.4 Even though the Council tax was not increased for 2011/12, changes in welfare benefit regulations will reduce many customers disposable income, combined with the continuing weakness of the local economy will place pressure on collection performance during the next 12 months and the position will continue to be monitored and reported to Members on a quarterly basis.

Non-Domestic Rates

A4.5 The targets for the collection of NNDR (business rates) are:

- (i) collect 98.0% of the business rates due within the 12 months of the financial year (i.e. April to March); and
- (ii) collect 50% of the arrears brought forward from previous years

At the end of the fourth quarter, the Council collected £32.0m which is 96.6% of the business rates due in year. This is an improvement on the outturn position at the end of last year.

A4.6 The impact of the downturn within the local economy has meant it continues to be a difficult environment for the business sector and this has made it a challenging time with respect to the collection of income, reflecting the difficult trading conditions and a number of business failures due to the recession. In this difficult climate position will continue to be monitored and reported to members on a quarterly basis. The total arrears outstanding at the end of the year was £1.5m.

A4.7 The Government last year introduced an exemption for small businesses with rateable values (RVs) of below £12,000, which applied from 1 October 2010. Those with RV's of less than £6,000 will qualify for 100% relief and where the RV is £6,001 to £12,000 then the relief will reduce on a sliding scale from 100 to 0%.

A4.8 The Government has extended the scheme for a further twelve months which has meant that some properties which were exempt to 30 September 2010, which would have come back into charge from this date, have now been exempt for the full financial year. The impact of this change is to increase the amount of relief awarded and a net reduction in the debit for the year

A5. Overall Financial Position

A5.1 As identified above in paragraph, (A3.1) the Council has declared an overall surplus of £1.351m. It is also recommended that £0.500m is transferred to the

CSR Reserve which will enable the Council to meet the difficult financial challenges it faces over the next few years and £0.578m be transferred to the Budget Pressures Reserve.

- A5.2 As part of the Council's normal budget planning a provision for pay inflation of 1% was included in the 2010/11 base budget. However, due to the public sector pay freeze, this provision was not required. It was recommended during 2010/11 that this sum of money (£0.367m) was transferred to the Budget Pressures Reserve and held as a provision against any budget pressures that may arise during the year.
- A5.3 If approved this recommendation will be seen as a prudent approach to ensure resources are available to fund budget pressures that may arise during the year and provide a contingency for the further reductions to government grant over the next 2 years.
- A5.4 Whilst this contingency is available to support budget pressures before resources will be released from the contingency, Business Units will be expected to explore all options to manage any budget pressures in the year, including the production and agreement of a robust recovery plan. Any monies released through the normal approved process in accordance with the financial regulations must be supported by a business case explaining how the monies will be used and the expected outcomes.
- A5.5 It is also recommended that the balance of £0.275m is transferred to the General Fund Balance. The General Fund Balance currently stands at £3.7m, before any additions are made. There has been recent media attention as to the level or reserves held by Council's and the Council's external auditors take a view as to the level of the Council's General Fund Balance. I, therefore, consider it prudent to make a contribution to the General Fund Balance of £0.275m which would increase the overall General Fund Balance to £4.0m which represents 3.2% of the 2011/12 approved net revenue budget (excluding Schools Related Expenditure) and ensures the Council is above its target of 3%.
- A5.6 It should be recognised that the general fund balance is uncommitted and provides funds that would only be used to fund any unforeseen or unexpected expenditure that could not be managed within services. With this in mind and in light of the difficult financial climate faced by the Council, I believe that a cash balance of £4.0m, whilst the Council is at its current size of service provision, is a prudent and sustainable level.

6 Reserves

- A6.1 The annual review of all reserves will be undertaken as part of the budget preparation process and is reported to Members at least once a year usually in the autumn, as has been the practice in recent years. This then allows any surplus monies to be recycled as part of the budget setting process for the following year. Members should bear in mind that all reserves are earmarked for specific purposes with the exception of the General Fund Reserve which remains the only fund the Council holds to meet emergency costs. With media attention focusing in the level of Council reserves it should be noted that any release of monies from reserves should only be used for one off purposes and cannot be used to sustain ongoing expenditure.

- A6.2 A recommendation from the Review of Reserves report was the creation of a Comprehensive Spending Review (CSR) reserve to support the Council in managing the impact of government grant reductions over the period of the CSR. The opening balance on this reserve was £4.5m. As part of the budget savings made in 2010/11, £1.4m has been used to fund the costs of redundancies and a further £0.4m has been earmarked to support and increased pressures within Adult Social Care that may arise during the year.
- A6.3 As stated in paragraph A5.1, it is recommended that a contribution of £0.500m is made from the surplus for the year to replenish the CSR reserve. This will help ensure there is provision to meet any further costs of managing the expected changes to the Council structure and services over the next few years.
- A6.4. On 4 April 2011 the Council was allocated £0.3m of New Homes Bonus money. This will be paid to the Council for the next 6 years and further allocations will be made subject to any increase in the number of houses built or brought back into use. This money is not committed and officers will be making proposals to Members as to how this money can be used.

A summary of the uncommitted reserves available to the Council are summarised below.

Reserve	Balance at 1 April 2010 £'m	Spend in Year £'m	Commitments / Contingency £'m	Balance at 31 March 2011 £'m	Contribution to Reserve £'m	Balance at 1 April 2011 £'m
CSR Reserve	4.400	1.400	0.400	2.600	0.500	3.100
Budget Pressures Reserve	0.450	0.450	0	0	0.943	0.9435
Credit Crunch Reserve	0.374	0.265	0	0.109	0	0.109
LABGI Reserve	0.193	0.136	0.012	0.045	0	0.045
Seaside Towns Reserve	0.200	0.158	0.162	0.042	0	0.042
Financial Strategy and Change Management Reserve	0.803	0.318	0.086	0.399	0	0.399

A7. Summary and Impact on 2010/11 and Later Years

- A7.1 The regular budget monitoring reports to Members during the year identified the key variations which have been summarised in this outturn report. After taking into account the in year cut to the Council's grant, close monitoring of all variations and performance by Cabinet and the Commissioner Officer Group and key actions such as a vacancy freeze has enabled Council to declare an

underspend for the year. To that end service managers must be commended for their approach when the Council was facing a challenging position in a number of key services. Not only has this helped deliver a year end surplus but it also provides the Council with a strong base from which it can continue to meet the even more challenging financial climate faced over the next few years.

A7.2 The Council will be responding to the financial challenges by continuing to develop its change process with the implementation of a number of projects arising from the Productivity and Improvement Programme which will support the Council delivering savings over the next few years.

A7.3 The Council has already started developing plans as to how it will meet the reduction to its grant in 2012/13 and is mindful of the significant ongoing pressures it faces including the Waste Agenda, increasing demands made upon Social Care for Adults and Children's as well as the volatility in income collection to name but a few.

A7.4 Members and officers must not be complacent and must continue to manage their budgets robustly in 2011/12 to maintain expenditure within their approved allocation and continue to demonstrate value for money to ensure the Council is not in a position that it would have to implement draconian actions in order to achieve a balanced position at year end.

A7.5 As in previous years, it is essential that managers and Members contain their service commitments and spending within the approved levels. A key principal that must be adhered too is that any new proposals and service issues should not be considered or brought forward unless clear and achievable funding sources are identified, that these are priority projects for the Council and are not driven simply because some external funding has become available. At the first indication of a variance against the approved budget, officers must identify the anticipated size of the variance, the cause of the variance and the remedial action to bring the budget back into balance. This will be supported through the regular budget monitoring to Executive Lead Members, Overview and Scrutiny and the Senior Leadership Team.

A7.6 The Council will be re-assured that it has some provision in 2011/12 to address any unforeseen expenditure with an earmarked budget pressures reserve and the other reserves outlined in section 6 will assist the Council in managing a reduction in service provision over the next few years. Members should also be reassured that the proposed contribution to the General Fund Balance means the Council has stayed above its target level of 3%.

A7.7 Looking into the medium to longer term commentators and the public sector are expecting ongoing reductions to funding but with the inevitability of increasing demands within key services which will mean Torbay will not only be facing some challenging financial issues but also a number of difficult choices as to where expenditure and services have to be reduced. The Council has started to plan for this and all officers and Members must consider the impact of a reduced settlement in future years as part of their future spending plans and when planning future service delivery.

A8. Risk assessment of preferred option

Outline of significant key risks

- A8.1 The contribution of any surplus to general fund balances will assist in ensuring the Council's general fund balances are sufficient to assist with its medium term financial planning. The Council's external auditors have commented in the past on level of the Council's general fund balances. The recommended contribution to the general fund balance means the Council has stayed above its own 3% target. Whilst it is important to keep all reserves under review the Council must continue with its commitment to build up its financial reserves particularly in this challenging financial climate as undoubtedly it will continue to face many financial pressures, in the short and medium term.
- A8.2 The continuation of having a budget pressures reserve into 2011/12 is a prudent measure to ensure resources are available to fund increased demands during the year.

A9. Other Options

- A9.1 Members could determine to utilise the monies put into the various reserves for 2011/12 budget pressures and Change Management and Finance Strategy Reserve.
- A9.2 Members could make alternative recommendations as to how the underspend is used.

A10 Summary of resource implications

- A10.1 The resources implications are outlined within the report in section A1.

A11. What impact will there be on equalities, environmental sustainability and crime and disorder?

- A11.1 The approval of the recommendations Council's will assist all Council services in meeting their obligations with respect to equalities, environmental sustainability and crime and disorder.

A12. Consultation and Customer Focus

- A12.1 Commissioners and Executive Heads and their Executive Leads have discussed and agreed the outturn position.

A13. Are there any implications for other Business Units?

- A13.1 Implications for Business Units with respect to the outturn position.